Why Does Allstate Use Credit Information to Evaluate Insurance Policies?

A Strong Connection

Over the past several years, insurance companies have increasingly included certain information from credit reports among the factors used to evaluate insurance policies. As you hear more about this practice, you may have questions and concerns, most of them related to the following:

- What makes credit information relevant to the likelihood of insurance losses?
- What kind of information from a policyholder's credit history helps determine the premium that he or she receives?

In this document, we'd like to explain how Allstate uses credit information, and why. Below are some frequently asked questions about the use of credit information by Allstate.

Why is Allstate using credit information?

Certain information from credit reports is one factor among many others that we consider in order to determine as accurately as possible the risk presented by a given customer. We consider this information because of our ongoing concern about the accuracy of our risk evaluation, because it helps us control the cost of insurance, and because it helps us make insurance more widely available.

The information we use has proved an effective predictor of insurance losses. In fact, our actual experience confirms the connection between credit report information and the likelihood of experiencing a loss.

At Allstate, we're finding that our use of credit information enables us not only to offer *lower* premiums to many customers who otherwise would pay more for their insurance, it also allows us to provide insurance coverage to *more* drivers and homeowners than we previously could.

Other insurance companies that consider credit information report similar experiences. A survey conducted recently by the National Association of Independent Insurers found insurance companies providing insurance to more people than they had been prior to using credit information. In many cases, a customer's credit information offsets other information that previously would have prevented that customer from obtaining coverage.

I qualified for the best rate with my mortgage company. Why don't I qualify for the best premium on my insurance? What s the difference between the two?

The difference is that an insurance company considers only those items from credit reports that are relevant to insurance loss potential. Unlike a mortgage company, an insurance company is not assessing a customer's credit-worthiness. The determinations made on the basis of credit report information by a mortgage company can differ from those made by an insurance company because the two companies are looking for different things when they review credit information. Information that's important to one may not be as important to the other, or the two may consider the same piece of information in different ways.

The most important thing to keep in mind, however, is that many people who get the best rate with a mortgage company also do well on Allstate's insurance model; they would qualify for lower premium with Allstate than they would have if Allstate did not consider credit information at all. That's true even if the policyholder doesn't qualify for the lowest premium based on credit information.

What kind of credit information is Allstate using?

As mentioned above, we consider only those items from credit reports that are relevant to insurance loss potential. We do not consider information such as how much money you make or whom you owe because we are not assessing our customers' credit-worthiness.

The kind of information in credit reports that has proved relevant to calculating insurance risk includes bankruptcies, judgments, collections, and delinquencies. The number and the types of credit accounts a customer has, length of account history, and account balances relative to limits are other factors we consider.

Also, the presence in your credit report of *some* types of inquiries can affect your insurance premium, but it's important to understand which types of inquiries can have an effect. Our decision will not be affected by promotional inquiries, account review inquiries, the inquiry you make yourself in order to get a copy of your credit report, or the inquiry Allstate or any other insurer makes to review your credit history for insurance purposes. *

How is Allstate using information from credit reports?

In evaluating insurance policies, each of the several factors we consider from credit reports is assigned a "score"—some have positive scores, some negative. We then calculate an overall total, in which positive factors are allowed to offset negative ones, and make the appropriate determinations. Our method of considering all of these factors together, as a whole, ensures that no single negative item will necessarily prevent a customer from qualifying for our lowest premium. And many customers, while not qualifying for the lowest premium, will still qualify for a rate that is significantly lower than average because of the information we consider from credit reports.

What type of credit information is generally associated with the best scores?

Customers who have the best scores include those with a long-established credit history that is free of major events such as judgments and collections, and reflect either no delinquencies or only delinquencies involving smaller amounts that occurred well in the past. These customers will typically have some credit account activity, but relatively low balances compared to the available credit limits. In addition, they will have few recently opened accounts or inquiries prompted by the seeking of additional credit. While it's difficult to identify specific actions that any particular customer could take to improve his or her insurance score, customers who manage their finances in a way that is consistent with these characteristics are more likely to have better scores.

* The factors mentioned in this answer may vary from state to state based on legal or regulatory restrictions, or market conditions.

What about people like me who use credit cards to our advantage (for instance, to gain points for mileage, etc.)?

In the IFS scoring model, the frequent use of credit cards can have a positive impact on the score, provided you are not delinquent in your payments or significantly overextended. The fact that you use credit in a responsible manner will be considered favorably. In addition, the presence of reasonable balances on your credit card accounts is a characteristic that is common among customers receiving our best scores. Remember, the presence of any one characteristic will not necessarily prevent anyone from getting our best rate.

What does credit have to do with my likelihood of having an insurance loss?

The link between credit history and loss potential has been studied extensively by many scholars outside the insurance industry, in fields such as psychology, safety engineering, occupational medicine, consumer research, and risk perception. Over 30 articles and studies that we analyzed point to various possibilities. The two theories that emerge from these studies point to the added stress that financial pressures can bring and the possibility that financial difficulties may indicate a tendency toward risk-taking behavior—either of which can mean a higher likelihood of accidents.

Whatever the reasons behind the relevance of credit information to insurance loss potential, the predictive power of this information is a matter of fact, not of theory or conjecture. Auto insurance policyholders with the least favorable scores are over 60 percent more likely to experience losses that are greater in number and severity than those with the most favorable scores. The difference is even more dramatic among property insurance policyholders. The dollar amount of losses experienced by homeowners' policyholders with the least favorable scores is more than twice as much as for those with the most favorable scores.

How can I correct my credit report information if it's wrong? Will my premium change?

If you discover a mistake in your credit report, all you have to do is contact the reporting agency and correct the report. Then let us know, and we will be happy to re-evaluate any decision we've made based on your credit information.

But credit reports are generally very accurate. In 2001, Allstate ordered over 17 million credit reports. The number of written requests from the consumer disputing information on their credit report totaled less than 3,000, or .017 percent of the total number of reports ordered.

However, mistakes do happen. If you discover a mistake, all you have to do is contact the reporting agency and correct the report.

Is Allstate's use of credit information legal?

Yes. In all states in which we consider credit history, we are doing so in a legally permissible manner.

Do other insurance companies use credit report information?

Yes. Many personal lines insurance companies use some type of evaluation of one's credit report for assessing risk of loss.

Does Allstate's scoring model consider ethnicity, gender, location or income?

No. None of the insurance scoring models we use considers ethnic group, religion, gender, marital status, nationality, age, income, or address. These are simply not factors in insurance scoring models.

Other third parties need our permission to obtain a credit report (purchasing a car, home, credit cards, etc.). Why should the insurance companies be any different?

Some transactions are more formal than insurance transactions, so it may appear that permission is required because of the paperwork involved. According to the Fair Credit Reporting Act, permission is not required if the credit report is to be used in connection with an insurance transaction. Federal law recognizes the legitimate need of insurance companies for credit information and that it would be inefficient to require permission. However, users of credit reports are required by law to provide notification whenever adverse action is taken based on information from credit reports to ensure consumer protection. It is Allstate company policy to inform new business customers upfront that we will be ordering credit reports.

The use of credit information benefits consumers

For all of the reasons outlined above, the use of credit information by insurers is becoming more common. The relevance of credit information to insurance loss potential is proven by the actual loss experience of the insurance companies using it. These same sources also demonstrate that consideration of credit information increases the accuracy of insurance underwriting, allows many consumers to pay less for insurance than they otherwise would, and enables insurance companies to offer coverage to more consumers than they had in the past.

Allstate.
You're in good hands.

Corporate Relations
Allstate Insurance Company
Home Office: Northbrook, Illinois
Allstate.com

Rev – CR0502